https://www.financial-planning.com/news/how-advisors-are-changing-investment-strategies-as-the-fed-begins-lowering-rates

From left: The 2024 Future Proof Festival in Huntington Beach, California featured the "CIO Perspectives" panel hosted by CNBC reporter Bob Pisani and included panelists Lauren Goodwin, economist and chief market strategist at New York Life Investments; Saira Malik, chief investment officer and head of Nuveen Equities and Fixed Income at Nuveen; and Bryan Whalen, group managing director for U.S. fixed income at TCW.
Cat Auer

As Fed announces half-point rate drop, advisors change investment strategies
By Rob Burgess
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Now that we know that the Federal Reserve has lowered interest rates by half a percentage point, there are still several unanswered questions.

What is the investment mindset shift for financial advisors in an era of rate cuts?

How does it change the broader economic outlook going forward?

And what will happen with the rest of the 2024 rate cuts?

For answers, financial advisors and industry experts weighed in on what this means and what's ahead.

Investment mindset shift
Eric Beiley, executive managing director and wealth manager at The Beiley Group at Steward Partnerssaid investors should become more optimistic about different investment classes as we enter an era of rate cuts.

"Positive investment returns across both equities and fixed income typically follow the start of rate cuts," he said.

Beiley said investors should look at market volatility or a sell-off as an opportunity to invest in both equity and fixed-income asset classes.

Jon McCardle, president of Summit Financial Group of Indiana in Lafayette, Indiana, said that as his firm closely monitors the Federal Reserve's evolving stance on monetary policy, they "maintain a hands-on approach to managing our clients' portfolios."

"Unlike firms that outsource portfolio management, we take pride in actively shaping our strategies," he said. "The markets seem to be banking on the Federal Reserve's ability to deliver a 'soft landing' — raising interest rates to tame inflation without tipping the U.S. economy into recession."

However, McCardle said recent market volatility "tells a more complex story."

"Concerns are mounting about the upcoming presidential election and its potential impact on economic policy, coupled with the financial pressures faced by the average American household," he said. "These factors seem to be casting a shadow over the optimistic outlook many investors are clinging to."

In light of this, McCardle said they have strategically re-balanced client portfolios, taking advantage of the opportunity to lock in profits.

"At the same time, we've tilted to reflect a more conservative stance, ensuring that long-term strategies remain intact while mitigating risk in an increasingly uncertain environment," he said.

Benjamin Simerly, founder of Lakehouse Family Wealth in Mentor, Ohio, said there is a lot of pressure on the Fed to "show the fruits of their labor in a 'soft-landing' to the masses."

"Historically, recessions, or at least significant market declines, tend to follow the shift from a high interest rate environment to cutting rates post-inflation," he said. "I suspect this worry will weigh heavily on everyone's minds the more it gets publicity in the coming months. The irony is that it will also encourage the Fed to speed up rate cuts to spur more cheap money into the markets."

Changing the outlook
The biggest question mark is bonds, said Simerly.

"In the past few years, bonds have dramatically underperformed," he said. "Bonds have started to come back though, and they are still a significant part of most portfolios."

Chuck Etzweiler, senior vice president of research at Nepsis in Savage, Minnesota, said investors will be seeking advice on how to shift monies from cash vehicles and back into stocks and bonds.

"The 5% juicy CD is probably a past phenomenon, and investors will be seeking more appropriate options," he said.

Etzweiler said it's an exceptionally good time to own high-quality companies that generate positive cash flow and have "wide economic moats."

"Great advancements in the healthcare space and the tech automation revolution allow for investors to work with money managers who recognize the tremendous opportunities that lie before us," he said. "Lower interest rates enhance profit margins for companies on the lower end of the market cap spectrum and those are ones we are seeking to add to investor accounts."

Simerly said investment managers everywhere are scrambling to figure out a bonds plan in a post-inflation, post-COVID environment as rate cuts begin.

"If rates come down as expected, I expect to see many major companies taking development and research and development projects off the shelves in the coming two to three quarters," he said.

Gary Zimmerman, CEO of MaxMyInterest, said the outlook going forward depends on the reason that rates are falling. In general, he said, lower rates should be positive for equities.

"However, in the current environment, the anticipated rate cuts are likely in response to a weakened economic environment, which would be negative for equities in the near term," he said. "Bonds generally perform well in a declining rate environment, however much of the anticipated rate cuts are already priced in."

Zimmerman said the asset class that should outperform is cash, so long as it is held in the highest-yielding savings accounts.

Bill Promes, founder of Austin Creek Capital in Mill Valley, California, said advisors should guide clients to mostly stay the course.

"As rates come down, the yield on savings and money market accounts will not look as attractive, and investors will start to look elsewhere," he said.

The prognosis for the future

Promes said we will likely see further rate cuts over the next two years, but probably not as deep as was in 2020.

Zimmerman said the prognosis for future rate cuts will depend upon the economic outlook. Regardless of the rate environment, clients should always be looking to earn the highest yields possible on their cash.

As for what will happen with rate cuts for the rest of 2024, Beiley said the election presents a challenge. The Fed will be reluctant to implement multiple rate cuts until after the November election. He said he foresees one or maybe two rate cuts in 2024 and the bulk of rate cuts starting in 2025.

At this week's annual Future Proof Festival in Huntington Beach, California, the "CIO Perspectives" panel discussed the implications of the Fed's rate cut for advisors and clients. The panel was moderated by CNBC reporter Bob Pisani and featured panelists Lauren Goodwin, economist and chief market strategist at New York Life Investments; Saira Malik, chief investment officer and head of Nuveen Equities and Fixed Income at Nuveen; and Bryan Whalen, group managing director for U.S. fixed income at TCW.

Goodwin said she expected to see the economy slow further from this point. When the Fed, or any central bank, starts raising interest rates, the economy tends to evolve similarly over time. Thus, she said they didn't foresee a severe recession, but a continued slowdown.

"You tend to see liquidity- and interest-rate-sensitive sectors struggle first," she said. "Areas like housing, venture capital, then the manufacturing sector flags. We've seen that for the last 20 months. ... It's a little counterintuitive, but we are seeing profit margins move slowly lower. It's only then that you start to see the labor market and the consumer feel the impact, and we've seen those economic dominoes slowly topple throughout the past couple of years."

Malik said employment, consumer and manufacturing data drive the economic cycle. Manufacturing has generally been at or close to contraction territory. On the consumer side, delinquencies are picking up. Employment has been the bright spot in this economic cycle.

However, Whalen said the demand for labor is flat at best.

"I'd say at this point, our view is that it's too late," he said. "You can't turn this economy as quickly as the Fed would like. And more likely than not, we are heading into a downturn, you know, and whether it's going to be a mild recession or a moderate recession, I think a lot of that's going to be determined by the Fed reaction."